

# Mahindra Logistics Ltd

**SELL**

**CMP Rs298**

**Target Rs226**

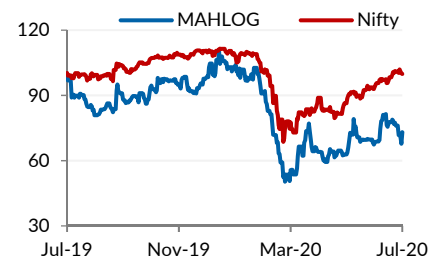
**Downside 24.1%**

<b>HIGHLIGHTS</b>	<ul style="list-style-type: none"> <li>✓ Mahindra logistics (MLL) reported topline of Rs4.1 bn (down 54.3% yoy). The performance was impacted by nationwide lockdown due to the Covid-19 pandemic as significant reduction in industrial activity, and weak business sentiment reduced logistics requirement.</li> <li>✓ Despite higher contribution from the better margin warehousing segment, gross margin remained stagnant at ~9.7% owing to subdued utilizations. Also, lower revenue and higher employee expense translated into loss at operating level (Rs.22mn).</li> <li>✓ While Supply Chain Management (SCM) segment de-grew ~51% yoy, a larger hit was seen in the Enterprise Mobility (EM) division wherein revenue declined ~82% yoy. The performance in the EM segment was hit hard by lesser requirement of transportation with large part of clients' employees continuing to work from home (WFH).</li> <li>✓ Share of M&amp;M within SCM segment declined to ~44% (from 61% in Q1 FY20; revenue down 65% yoy). Also, auto sector contribution declined significantly to ~53% (from 71% in Q1 FY20). The management expects delayed recovery in auto segment owing to Covid-19.</li> </ul>
<b>Our View</b>	<ul style="list-style-type: none"> <li>✓ We expect revenues to be remain under pressure in FY21 with continued weakness in the auto segment. Also, MLL's EM division is likely to remain impacted, with IT and Financial sector employees largely working from Home.</li> <li>✓ On the margin front, despite increasing contribution from warehousing, we expect operating margin to moderate to ~4.4% during FY22E with higher operating costs.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>✓ We largely maintain our estimates and retain our SELL rating on the stock with a Target Price of Rs.226 (28x FY22E P/E). Weak business sentiments and delayed recoveries to impact MLL's performance in the near to medium term.</li> </ul>
<b>Risk to our call</b>	<ul style="list-style-type: none"> <li>✓ Sharp recovery in the Auto and Farm Segment.</li> </ul>

## Stock data (as on Jul 31, 2020)

Nifty	11,073
52 Week h/l (Rs)	458 / 195
Market cap (Rs/USD mn)	21313 / 285
Outstanding Shares (mn)	72
6m Avg t/o (Rs mn):	24
Div yield (%):	0.5
Bloomberg code:	MAHLOG IN
NSE code:	MAHLOG

## Stock performance



	1M	3M	1Y
Absolute return	8.9%	14.7%	-25.6%

## Shareholding pattern (As of Jun'20 end)

Promoter	58.4%
FII+DII	30.8%
Others	10.8%

## Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	7.7	5.3	8.1
EPS (Old)	7.7	5.3	8.1
% change	-	-	-

## Exhibit 1: Result table (Consolidated)

Y/e 31 Mar (Rs mn)	Q1 FY21	Q1 FY20	yoy (%)	Q4 FY20	qoq (%)
Revenue	4,105	8,990	(54.3)	8,118	(49.4)
Operating Profit	(22)	401	NA	380	NA
OPM (%)	(0.5)	4.5	NA	4.7	NA
Other Income	28	70	(59.9)	31	(9.6)
Depreciation	(184)	(149)	23.9	(220)	(16.4)
Interest	(46)	(36)	28.2	(57)	(19.6)
PBT	(224)	287	NA	134	NA
Tax	59	(100)	NA	(36)	NA
PAT	(165)	187	NA	98	NA
Minority Interest/Loss in JVs	7	(0)	NA	(1)	NA
Adjusted PAT	(158)	186	NA	97	NA

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## Exhibit 2: Segmental performance (Consolidated)

Particular	Q1 FY21	Q1 FY20	yoy (%)	Q4 FY20	qoq (%)
<b>Revenue (Rs. mn)</b>					
Supply Chain Management	3,926	8,010	(51.0)	7,304	(46.2)
Enterprise Mobility	178	981	(81.8)	813	(78.1)
<b>Revenues Mix (%)</b>					
Supply Chain Management	95.7%	89.1%		90.0%	
Enterprise Mobility	4.3%	10.9%		10.0%	
<b>EBIT (Rs. mn)</b>					
Supply Chain Management	241	642	(62.5)	571	(57.9)
Enterprise Mobility	(7)	95	(107.1)	73	(109.2)
<b>EBIT Margin (%)</b>					
Supply Chain Management	6.1%	8.0%		7.8%	
Enterprise Mobility	-3.8%	9.7%		8.9%	

## CON-CALL HIGHLIGHTS

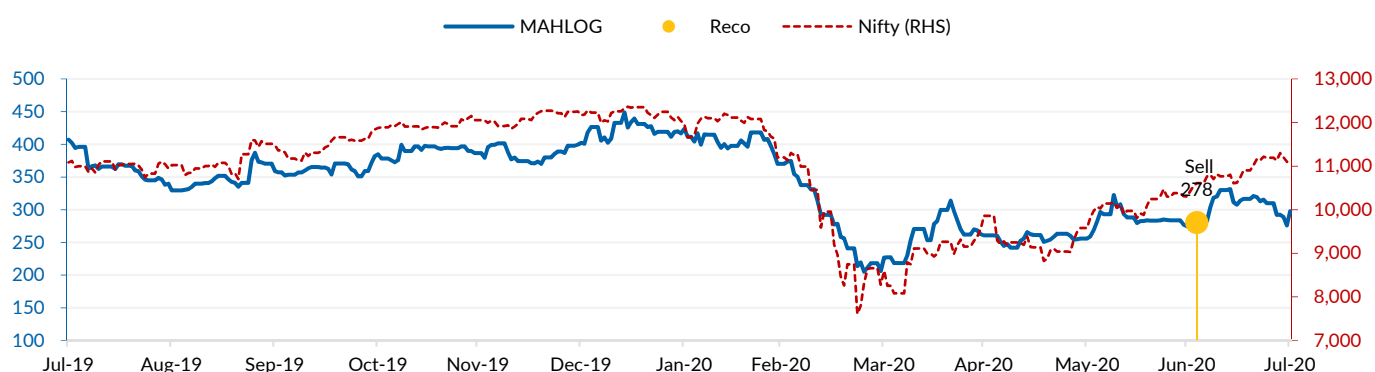
- ✓ MLL's performance during Q1 FY21 was impacted by nationwide lockdown and disruptions due to the Covid-19 pandemic. With the easing off lockdown restrictions gradually during May-Jun'20 period, the company has witnessed month-wise improvement in performance. Revenue during Apr/May/Jun'20 stood at Rs.766mn/Rs.1.2bn/Rs.2.1bn respectively.
- ✓ M&M's contribution to the SCM segment declined to ~44% (from 61% in Q1 FY20; revenue down 65% yoy) largely due to lower volumes. Also, transportation business (within SCM segment) has been significantly impacted (down 58.8%) with the interstate/intrastate restrictions on truck movements. The management has indicated towards strong recovery in the transportation segment.
- ✓ The contribution from the warehousing and value-added service to the overall SCM's segment has improved from 17% in Q1 FY20 to 31% in Q1 FY21, as continuity of services related to essential sector translated into comparatively lower (~14% yoy) drop in revenue. Similarly, demand for goods in essential categories led to a positive traction in e-commerce and FMCG, and pharma business verticals translating into improved non-auto contribution (47% in Q1 FY21 vis-à-vis 29% in Q1 FY20).
- ✓ Despite higher contribution from the better margin warehousing segment, gross margin has remained stagnant at ~9.7% impacted by subdued utilizations. With better volumes in transportation segment and higher contribution from warehouse division, the management expects improvement in gross margin going forward.
- ✓ During Q1 FY21, total warehousing space under management increased by ~0.25mn sq ft to ~16.5mn sq.ft. The management has guided to add ~1.5mn sq.ft. of warehousing space during FY21E. Utilization in the warehousing segment has improved to ~80% by Q1 FY21 end.
- ✓ Drivers and labour availability has not severely impacted the Company.

- ✓ According to the management, COVID-19 pandemic has largely delayed the demand recovery in the auto sector - a) Passenger vehicle: owing to higher effect of pandemic on urban population and b) commercial vehicle: sluggish economic activity with under-utilized capacities. Farm segment is expected to do well with expectation on better monsoon and credit facilities.
- ✓ Customer/large contract acquisition for the company been better during May'Jun'20 period and order rate has increased from existing/new clients. The company expects addition of several clients from Q3 FY21 onwards. The management has indicated towards better mix (towards higher requirement of warehousing space) for newer clients.
- ✓ Net Cash and Cash equivalent at the end of Jun'20 stood at ~Rs.1.9bn aided by better cash flow management and receivables. No major capex has been incurred during Q1 FY21.

### Exhibit 3: Financial Summary (Consolidated)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	38,513	34,711	31,311	35,282
yoy growth (%)	12.7	(9.9)	(9.8)	12.7
Operating profit	1,512	1,583	1,282	1,558
OPM (%)	3.9	4.6	4.1	4.4
Adjusted PAT	864	552	376	578
yoy growth (%)	32.4	(36.1)	(31.9)	53.7
EPS (Rs)	12.1	7.7	5.3	8.1
P/E (x)	24.6	38.6	56.7	36.9
EV/EBITDA (x)	13.3	13.0	16.2	13.0
Debt/Equity (x)	0.1	0.1	0.1	0.0
RoE (%)	18.8	10.6	6.7	9.7

### Recommendation Tracker



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